

Message Text

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16

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 IO-03 NSC-05 NSCE-00 SSO-00 INR-05

INRE-00 EUR-08 EB-03 L-01 SP-02 SAM-01 SAB-01 CIAE-00

PM-03 DODE-00 /053 W

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O 161000Z MAR 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 0579

INFO AMEMBASSY ABU DHABI IMMEDIATE

AMEMBASSY BEIRUT IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY CAIRO IMMEDIATE

AMCONSUL DHAHRAN IMMEDIATE

AMEMBASSY DOHA IMMEDIATE

USMISSION GENEVA IMMEDIATE

AMEMBASSY KUWAIT IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY MANAMA IMMEDIATE

AMEMBASSY MUSCAT IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

USMISSION OECD PARIS IMMEDIATE

USDEL RIYADH IMMEDIATE

AMEMBASSY ROME IMMEDIATE

AMEMBASSY SANAA IMMEDIATE

AMEMBASSY VIENNA IMMEDIATE

AMCONSUL ZURICH IMMEDIATE

S E C R E T JIDDA 1854

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJECT: REVALUATION OF THE SAUDI RIYAL

REF: JIDDA 1818

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SUMMARY: VALUE OF SAUDI RIYAL SET AT 3.475 TO THE

DOLLAR; PEGGED IN TERMS OF SPECIAL DRAWING RIGHTS. VALUE OF RIYAL WILL BE ADJUSTED ACCORDING TO MOVEMENT OF SDR DOLLARS RELATIONSHIP, BUT ONLY PERIODICALLY AND NOT REPEAT NOT DAILY. THIS CONTROLLED FLOAT COMBINED WITH SUCH A SMALL REVALUATION COULD STILL INSPIRE SPECULATION AND COULD FURTHER STRENGTHEN THE RIYAL IN EUROPEAN OR GULF MARKETS. THERE DOES NOT APPEAR TO BE ANY DIRECT EFFECT ON OIL PRICING IN THIS REVALUATION. END SUMMARY

1. AS MARKETS OPENED TODAY IN JIDDA, BANKERS WERE TOLD BY SAMA THAT THE CURRENT EXCHANGE RATE IS SR 3.475 TO THE DOLLAR. THAT EQUALS A REVALUATION OF 2 PERCENT. THE BANKING COMMUNITY IS STILL IN A GREAT DEAL OF UNCERTAINTY CONCERNING ACTUAL ARRANGEMENTS, AND EXPECTS DAILY FIXINGS BY SAMA. BRITISH BANK OF THE MIDDLE EAST WAS UNABLE TO PURCHASE DOLLARS FROM SAMA AT THE NEW RATE AND IS HANDLING ONLY EMERGENCY TRANSACTIONS. NATIONAL COMMERCIAL BANK, THE LARGEST EXCHANGE DEALER, DID NOT TRY TO PURCHASE DOLLARS BECAUSE IT HAD ENOUGH ON HAND TO MEET DEMAND, BUT WAS TOLD IT COULD PURCHASE.

2. SAMA TELLS US THAT THE RIYAL HAS BEEN PEGGED TO THE SDR AT A RATE YIELDING THE CURRENT 3.475/1 RATIO. THE RATE WILL "FLOAT" WITHIN A MARGIN OF .025 ON EITHER SIDE OF THE 3.475 MID-POINT. THE RATE WILL NOT BE ADJUSTED DAILY. INSTEAD, WHEN THE DOLLAR SDR RATIO MOVES (OUR LATEST FIGURES SHOW ONE DOLLAR EQUALS 1.23 SDRS) SAMA WILL ADJUST THE RATE IN DISCRETE STEPS AT UNANNOUNCED INTERVALS.

3. THIS ARRANGEMENT IS AN IMPROVEMENT OVER THE UNDERSTANDING BANKERS HAVE BECAUSE IT MEANS SAMA'S INADEQUATE MACHINERY WILL NOT BE FORCED TO COPE WITH THE PROBLEM OF DAILY SETTING A RATE.

4. MUCH TO OUR SURPRISE, JIDDA'S LEADING FOREIGN EXCHANGE TRADER (WITH THE NATIONAL COMMERCIAL BANK) ACTUALLY EXPECTS SOME MOVEMENT OUT OF RIYALS IN THE NEXT WEEK OR SO. HIS REASONING IS THAT MANY PEOPLE HAVE TAKEN A
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POSITION IN RIYALS AND WILL NOW TAKE THEIR PROFIT. HE AGREES THAT THE MARKET IS VERY THIN (HIS ESTIMATE IS THAT NO MORE THAN \$25 MILLION ARE TRADED IN THE WORLD'S MONEY MARKETS IN ANY ONE DAY). THIS MEANS THAT ANY SIZEABLE MOVEMENT INTO RIYALS COULD TRIGGER A RUNAWAY REVALUATION IF ALLOWED TO FLOAT. ON THE OTHER HAND, THE ONLY RIYAL-DENOMINATED DEBT INSTRUMENTS INTO WHICH SPECULATIVE MONEY COULD FLOW ARE TIME DEPOSITS PAYING

A MAXIMUM OF 4.5 PERCENT PER ANNUM.

5. WE WILL KNOW MORE ABOUT WHAT WILL HAPPEN TO THE RIYAL WHEN MONEY MARKETS REOPEN IN EUROPE ON MONDAY, BUT AT THIS TIME WE STILL TEND TOWARD THE OPINION THAT A TWO PERCENT REVALUATION IS A VERY SMALL MOVEMENT, AND IS LIKELY TO STIMULATE MORE SPECULATION IN THE DIRECTION OF A REVALUATION.

6. WE WOULD APPRECIATE AN ESTIMATE FROM KUWAIT, BEIRUT, LONDON AND FRANKFURT OF THE AMOUNT OF SAUDI RIYALS TRADED ON THOSE EXCHANGES IN AN AVERAGE WEEK.

7 WE HAVE HEARD THAT VOICE OF AMERICA REPORTED (MARCH 15) THAT THE REVALUATION WOULD MEAN AN INCREASE IN OIL PRICES. IT WOULD BE BENEFICIAL IF STATE COULD POINT OUT TO VOA THAT OIL PRICES ARE FIXED IN DOLLARS, AND NOT TIED TO THE VALUE OF THE SAUDI RIYAL. ONLY IF AND WHEN OIL PRICES ARE TIED TO THE SDR WOULD THE PRICE OF OIL BE CHANGED BY TIEING THE CURRENCIES TO THE SDR.

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